



Torsten Clausen  
Illinois Commerce Commission  
VIA EMAIL

Dear Mr. Clausen

Please find attached initial comments from Direct Energy regarding the ICC white paper on resource adequacy in MISO Zone 4. Thank you for the opportunity to provide these comments and to participate in the ICC workshop process.

Direct Energy would prefer that the workshop have designated topics but not a single set panel of presenters to ensure a free flow of information. We believe this would ensure the greatest participation and feedback on this topic. One of those key focuses should be the impact on LSE's and retail supplier customer contracts from any changes.

We believe the RTO's are best equipped to provide for changes necessary in capacity markets and look forward to participating in the workshop.

Sincerely,  
Teresa Ringenbach  
Senior Manager Government & Regulatory Affairs - Midwest  
Direct Energy

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## Direct Energy comments in response to the ICC request for information MISO Zone 4

Direct Energy is a Load Serving Entity (LSE) in MISO and an Alternative Retail Electric Supplier in Illinois. Through our businesses we are currently serving all sizes of electricity customers behind the Ameren utility. As a LSE, we are subject to the MISO tariffed requirements for purchasing qualified capacity for our customers. This means that annually we must demonstrate to MISO that we have purchased sufficient capacity to serve our customers for the upcoming planning year. The ICC Whitepaper lists out requirements for participation in MISO but does not address the core purpose of the rejected Forward Resource Auction (FRA) or how the LSE requirements translate into customer contracts for supply in retail states.

Direct Energy, like other LSE's, has several options to purchase capacity. These options allow us to manage our capacity costs in a manner that ultimately benefits our customers. Like purchases of electricity, suppliers use different means to essentially hedge and protect our customers from volatility in capacity prices. The options available to a supplier by MISO for capacity include Fixed Resource Adequacy Plans (FRAP), Zonal Resource Credits (ZRC), self-supply, and the Planning Resource Auction (PRA). This allows a LSE to enter into long term agreements for capacity, purchase ZRC's for customer sited generation or demand response types of programs and in general to manage costs along with shorter term pricing to match the MISO market. In other words, it cannot be assumed that ARES in Illinois are simply using the PRA annually and may also have longer term contracts which could be impacted by any state specific capacity requirements.

An LSE using these options may do so specific to a customer's individual contract or to all their MISO load. A construct where LSE's must sell into an IPA program eliminates the competitive price advantages a supplier may have through these non-PRA purchases. In addition, if those products do not clear the IPA mandated auction it could leave a supplier with stranded costs, our customers with fewer options to control capacity prices and ultimately will act as a disincentive to certain actions to reduce capacity costs such as demand response.

This well thought out process has led to the ability to hedge to keep capacity prices low which benefits all Illinois customers. Any changes to this process to benefit a select few plants can only result in cascading market interference and higher prices for Illinois customers.

To avoid market interference, the FRA proposal was an addition to the capacity product options. The FRA would not have been the sole option for suppliers in restructured states. The rejected FRA did not replace all options a supplier had for capacity. Rather it removed the PRA (1 year) option and replaced it with the FRA (3 years) option. Had the FRA tariff been approved a supplier in a restructured state would have continued their ability to

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hedge using any mix of FRAP, ZRC and FRA. The FRA left all of the existing capacity product options in place to avoid market interference.

The proposal to solely use the IPA procurement in place of not only the PRA but also FRAP and ZRC creates market interference which could cross many areas. While the proposal is to have the IPA procurement act as the FRAP for MISO compliance – the reality is the IPA procurement will also be the sole and only option to include within a FRAP. Thus, eliminating bi-lateral contracts and direct ownership of demand response to qualify capacity.

Other areas of market interference from an IPA only approach include:

1. Mandates to demonstrate capacity for periods longer than one year or in excess of what a customer's cap tag requires will remove a customer's right to choose contracts of any length and incentives to reduce demand.
2. Forcing suppliers to buy capacity solely from a state agency will lead to customers bearing the burden of the capacity purchased with no ability to control that cost through market based options.
3. Mandates for suppliers to buy amounts of capacity regardless of customer ability to create their own capacity product through ZRC's will reduce the value of demand response participation.
4. Elimination of use of any option other than a state procurement within a FRAP could also interfere with a customer's ability to use self-supply options for capacity.

The proposal to use the IPA is not a simple replacement of the PRA option for those portions of capacity currently procured through the PRA. It is rather a complete elimination of all MISO capacity products in favor of an auction only approach. While there are statements made that the FRAP and ZRC are still allowed it is the elimination of the options that make up a FRAP to a single state procurement that create a concern. What is really meant is those products currently used for hedging and control cannot be bought for our customers specifically. Rather they can be purchased and then hopefully clear in an IPA auction but no guarantee how that would translate to a customer's actual capacity needs or cost appetite.

Regarding concerns that Illinois plants are not being used for capacity, MISO has what is called a local clearing requirement. MISO mandates that a certain percentage of capacity used for load served in Zone 4 must also come from that Zone and be deliverable into Zone 4. So regardless of the capacity option used, those suppliers serving in Zone 4 are already buying the majority of capacity from within it. MISO uses the PRA and the demonstration process to ensure the LCR is met and also to ensure that there is no ability of a generator to withhold supply to manipulate prices.

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As noted in the white paper there is no reliability issue in Zone 4. In fact, there is an oversupply issue leading to low prices. FERC is working on options to boost coal plants which should be waited on before any state level market disruptors are considered given there are no concerns about supply.

These conversations must start with the customer. The reality is this entire process is about raising the capacity price and ultimately forcing customers to pay more. Use of the IPA to procure rather than the PRA is to create higher prices for capacity. It is not for reliability.

If there is a desire to create a longer-term price model beyond one year that is a different conversation. Using the IPA as the PRA replacement to create a longer-term price should truly be treated as swapping out only the PRA for the IPA option while retaining the other capacity options a supplier has today. As proposed the white paper doesn't seem to list this as an option. Rather it is an all or nothing replacement for all MISO capacity products. The white paper proposes the IPA approach as a mandate to remove all capacity product options and force purchases solely from the resulting IPA process. Even with this approach in the end whether MISO would accept the IPA product, timing of the IPA procurement and how to contract with a state agency while keeping load information confidential all remain a concern.

It has been proposed that moving to a different RTO could be a solution. Direct Energy will assume the white paper means a move to PJM. Going with that assumption it would seem the white paper is implying the PJM 3-year model would be a better approach. There are costs which come from that type of move as noted. It also is not a fast change. Some states have made the change but it required years of cases, transition costs and customer planning to make the change. Those costs may in fact not be less both qualitatively and quantitatively from a customer and market perspective. PJM is a more advanced market for states with choice and has more programs for customers to control their costs when they have electric choice. However, the move would mean a complete change to power purchase agreements, customer participation in certain demand response programs among other changes which cannot happen in a brief period.

The ICC should not disrupt the entire market and potentially subject customers to escalating and uncontrolled capacity costs. Direct Energy believes the white paper should include a deeper focus on the impact to the customers and retail market options if anything other than the current status quo is recommended. Additionally, Direct Energy recommends that Illinois should wait for FERC to issue rules in response to the DOE NOPR. Making changes in advance of those rules will only result in potentially creating something inconsistent with markets – and possibly a windfall for generators rather than market support. If Illinois chooses not to wait then any move should be well thought out to ensure no elimination of options to control capacity costs.